

Thinking About Investing

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Have you ever felt anxious about your investment portfolio? Who hasn't? A recent presentation¹ at one of our professional conferences pointed out that five out of every six years will produce a stock market return sequence that either triggers anxiety or smacks your portfolio so hard that you wonder why you ever trusted the markets to begin with.

This is normal. Many people simply cannot handle stock market volatility, which is why the people who DO have, historically, tended to make more, over multiple ups and downs, than the people who kept all their money stashed away in Treasury bonds.

The question is: is there better way to handle the inevitable anxiety that comes with buying stocks?

Psychologist Ken Haman, who now works at the investment firm AllianceBernstein, says that the key is to stay rational. He points to studies of the human brain which shows that all of us actually have two brains. One is the neocortex, where all of your higher thought processes take place. Below the neocortex is a primitive brain which is about as smart as an alligator, and this lower brain happens to be where all of our survival instincts are housed. Whenever you experience panic, the primitive brain immediately takes over and shuts down the neocortex--which allows you to respond instantly (rather than thoughtfully) on those many occasions when a saber-toothed tiger is running in your direction.

So when the markets have spent the past quarter giving up all the gains they generated in the first quarter, what do you do? First, talk with somebody who actually listens to you about how you're feeling. Then start to engage your neocortex. What do you imagine is going to happen in the future? Then move to: is that what you think, or how it feels?

If you're talking with a professional advisor, the advisor can guide you through this process, and then, when your neocortex is functioning again, you can look at some of the past market declines and see what happened next, or look at your financial situation and take stock of your progress toward your financial goals.

People who can handle the stock market roller coaster without getting sick seem to have an unfair advantage over everybody else in the investment world. It seems to depend on which part of your brain is in control.

¹ Financial Planning Association of Phoenix Spring Symposium, May 26, 2010